



Town of Bowling Green, Virginia

Annual Financial Report

For the Year Ended June 30,
2025

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Town of Bowling Green, Virginia
Financial Report
Fiscal Year Ended June 30, 2025

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Town of Bowling Green, Virginia
Financial Report
Year Ended June 30, 2025

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TOWN OF BOWLING GREEN, VIRGINIA

DIRECTORY OF PRINCIPAL OFFICIALS

Town Council

Tina Gambill, Mayor
Valarie Coyle, Vice Mayor
Jean Davis
David Storke
Jeff Voit
Dan Webb
Dr. John Chinault
Randy Hageman

Official

India Adams-Jacobs, Town Manager/Clerk/Zoning Administrator
Hope Toliver, Finance Director/Town Treasurer

Independent Auditor's Report

**The Honorable Governing Body
Town of Bowling Green, Virginia**

Opinions

We have audited the accompanying financial statements of the governmental activities and business-type activities, each major fund, and the aggregate remaining fund information of the Town of Bowling Green, Virginia ("The Town"), as of and for the year ended June 30, 2025, and the related notes to the financial statements which collectively comprise The Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities of the Town of Bowling Green, Virginia, as of June 30, 2025, and the respective changes in financial position and cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Bowling Green, Virginia, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Bowling Green, Virginia's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town of Bowling Green, Virginia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Bowling Green, Virginia's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Bowling Green, Virginia's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the statistical information but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2026, on our consideration of the Town of Bowling Green, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Bowling Green, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Bowling Green, Virginia's internal control over financial reporting and compliance.

Davis & Associates

Columbia, Maryland
August 23, 2026

June 30, 2025

Statement of Net Position

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Economic Development Authority Total
ASSETS				
Cash and cash equivalents	\$ 2,635,253	\$ 573,668	\$ 3,208,921	\$ 12,638
Taxes Receivables	316,365	-	316,365	-
Trash Receivables	14,593	-	14,593	-
Accounts Receivables	-	458,839	458,839	-
Due from the Commonwealth	4,493	-	4,493	-
Due from Caroline County	9,441	-	9,441	-
Land	39,197	76,530	115,727	-
Other capital assets	357,423	10,313,058	10,670,481	-
Total assets	\$ 3,376,765	\$ 11,422,094	\$ 14,798,859	\$ 12,638
Deferred Outflow of Resources:				
Total Deferred Outflow of Resources	\$ -	35,338	35,338	-
Total Assets and Deferred Outflow of Resources	\$ 3,376,765	11,457,432	14,834,197	12,638
LIABILITIES				
Unreconciled overdraft	\$ -	\$ 577,290	\$ 577,290	\$ -
Accounts payable and accrued liabilities	534,660	419,972	954,631	-
Accrued liabilities	65,743	400	66,143	-
Customer deposits	-	3,092	3,092	-
Accrued payroll	-	6,798	6,798	-
Compensated absences	-	9,191	9,191	-
Accrued interest payable	-	1,551	1,551	-
Unearned Revenue	-	-	-	-
Unearned grant revenue	393,035	-	393,035	-
Customer overpayments	-	181,355	181,355	-
Noncurrent liabilities:				
Bonds payable - net of current portion	-	5,449,009	5,449,009	-
Notes payable - net of current portion	-	1,218,656	1,218,656	-
Net Pension Liability	-	175,021	175,021	-
Net OPEB Liability	-	7,007	7,007	-
Water deposits	-	92,029	92,029	-
Total liabilities	\$ 993,437	\$ 8,141,370	\$ 9,134,808	\$ -
Deferred Inflow of Resources:				
Deferred revenue - property taxes	\$ 316,365	-	316,365	-
Pension related items	-	17,642	17,642	-
OPEB related items	-	7,649	7,649	-
Total Liabilities and Deferred Inflow of Resources	\$ 1,309,802	8,166,661	9,476,464	-
NET POSITION				
Net investment in capital assets	\$ 396,620	\$ 3,721,922	\$ 4,118,543	\$ -
Restricted:				
Donations	10,940	-	10,940	-
Unrestricted (deficit)	1,659,402	(431,151)	1,228,251	12,638
Total net position	\$ 2,066,962	\$ 3,290,771	\$ 5,357,733	\$ 12,638

The accompanying notes to the financial statements are an integral part of this statement

Year Ended June 30, 2025

Statement of Activities

Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
1,152,659	\$ 65,545	\$ -	\$ -	\$ (1,087,113)	\$ -	\$ (1,087,113)
327,879	-	-	-	(327,879)	-	(327,879)
524,065	-	-	-	(524,065)	-	(524,065)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>2,004,603</u>	<u>\$ 65,545</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,939,058)</u>	<u>\$ -</u>	<u>\$ (1,939,058)</u>
659,248	\$ 550,127	\$ -	\$ -	\$ -	\$ (109,122)	\$ (109,122)
<u>1,588,921</u>	<u>599,337</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(989,584)</u>	<u>(989,584)</u>
<u>2,248,169</u>	<u>\$ 1,149,464</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,098,705)</u>	<u>\$ (1,098,705)</u>
<u>4,252,773</u>	<u>\$ 1,215,009</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,939,058)</u>	<u>\$ (1,098,705)</u>	<u>\$ (3,037,764)</u>

General revenues:

General property taxes	\$ 228,654	\$ -	\$ 228,654
Other local taxes	1,790,216	-	1,790,216
Miscellaneous	<u>198,125</u>	<u>-</u>	<u>198,125</u>
Total general revenues and transfers	\$ <u>2,216,995</u>	\$ <u>-</u>	\$ <u>2,216,995</u>
Changes in net position	277,937	(1,098,705)	(820,769)
Net position - beginning, as adjusted	<u>1,789,025</u>	<u>4,389,477</u>	<u>6,178,502</u>
Net position - ending	\$ <u>2,066,962</u>	\$ <u>3,290,772</u>	\$ <u>5,357,733</u>

The accompanying notes to the financial statements are an integral part of this statement

June 30, 2025
Balance Sheet
Governmental Funds

	General	Capital Projects	Other Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 2,987,248	\$ (128,298)	\$ (223,698)	\$ 2,635,253
Taxes Receivables	316,365	-	-	316,365
Trash Receivables	14,593	-	-	14,593
Due from the Commonwealth	4,493	-	-	4,493
Due from Caroline County	9,441	-	-	9,441
Total assets	<u>\$ 3,332,140</u>	<u>\$ (128,298)</u>	<u>\$ (223,698)</u>	<u>\$ 2,980,145</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Deposits/Refunds Payable	\$ (47,514)	\$ -	\$ -	\$ (47,514)
Accounts payable and accrued liabilities	499,062	31,459	4,140	534,660
Deferred revenue - taxes	-	-	-	-
Deferred grant revenue	393,035	-	-	393,035
Accrued liabilities	113,257	-	-	113,257
Total liabilities	<u>\$ 957,839</u>	<u>\$ 31,459</u>	<u>\$ 4,140</u>	<u>\$ 993,437</u>
Deferred Inflows of Resources				
Accrued liabilities	-	-	-	-
Deferred revenue	-	-	-	-
Line of credit	-	-	-	-
Unavailable revenue - property taxes	\$ 316,365	\$ -	\$ -	\$ 316,365
Unavailable revenue - deferred grant revenue	\$ -	\$ -	\$ -	\$ -
Total deferred inflows of resources	<u>\$ 316,365</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 316,365</u>
Fund Balances				
Restricted:				
Donations	\$ 10,940	\$ -	\$ -	\$ 10,940
Unassigned	<u>2,363,359</u>	<u>(159,756)</u>	<u>(227,837)</u>	<u>1,975,765</u>
Total fund balances	<u>\$ 2,374,299</u>	<u>\$ (159,756)</u>	<u>\$ (227,837)</u>	<u>\$ 1,986,705</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,332,138</u>	<u>\$ (128,298)</u>	<u>\$ (223,698)</u>	<u>\$ 2,980,143</u>

The accompanying notes to the financial statements are an integral part of this statement

June 30, 2025

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances per Exhibit 3 – Balance Sheet –
Governmental Funds

\$ 1,986,705

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land \$ 39,197

Depreciable capital assets, net of accumulated depreciation 357,423

Total capital assets 396,620

Deferred outflows of resources

Deferred outflows of resources related to pensions are applicable to future periods and, are not reported in funds

-

Long Term assets - not available to pay for current period expenditures

Unavailable revenue (316,365)

Net position of governmental activities

\$ 2,066,960

The accompanying notes to the financial statements are an integral part of this statement

Year Ended June 30, 2025

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

	General	Capital Projects	Other Governmental Funds	Total
REVENUES				
General property taxes	\$ 228,654	\$ -	\$ -	\$ 228,654
Other local taxes	1,790,216	-	-	1,790,216
Permits, privilege fees, and regulatory licenses	65,545	-	-	65,545
Miscellaneous	173,389	9,500	15,236	198,125
Total revenues	<u>\$ 2,257,804</u>	<u>\$ 9,500</u>	<u>\$ 15,236</u>	<u>\$ 2,282,540</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,084,174	\$ 115,952	\$ 39,749	\$ 1,239,875
Public safety	327,879	-	-	327,879
Public works	524,065	-	-	524,065
Total expenditures	<u>\$ 1,936,119</u>	<u>\$ 115,952</u>	<u>\$ 39,749</u>	<u>\$ 2,091,820</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 321,685</u>	<u>\$ (106,453)</u>	<u>\$ (24,513)</u>	<u>\$ 190,720</u>
Net change in fund balances	\$ 321,685	\$ (106,453)	\$ (24,513)	\$ 190,720
Fund balances - beginning, as adjusted	<u>2,052,614</u>	<u>\$ (53,304)</u>	<u>\$ (203,325)</u>	<u>\$ 1,795,985</u>
Fund balances - ending	<u>\$ 2,374,299</u>	<u>\$ (159,757)</u>	<u>\$ (227,837)</u>	<u>\$ 1,986,706</u>

The accompanying notes to the financial statements are an integral part of this statement

Year Ended June 30, 2025

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances – total governmental funds (Exhibit 5)	\$	190,720
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.		87,217
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Some expenses and other adjustments reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in net position of governmental activities	\$	<u>277,937</u>
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June 30, 2025

Statement of Net Position

Proprietary Fund

	Business-Type Activities		
	Water Fund	Sewer Fund	Total Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 573,668	\$ -	\$ 573,668
Accounts receivable, net of allowance for uncollectibles	187,728	271,111	458,839
Total current assets	\$ 761,396	\$ 271,111	\$ 1,032,507
Noncurrent assets:			
Capital assets:			
Land and land improvements	\$ 18,000	\$ 58,530	\$ 76,530
Building and improvements	2,223	100,833	103,057
Equipment	133,815	95,242	229,057
Vehicles	78,536	66,836	145,371
Utility plant in service	3,479,223	10,157,627	13,636,850
Construction in progress	1,277,568	-	1,277,568
Less accumulated depreciation	(1,442,077)	(3,636,767)	(5,078,845)
Total capital assets	\$ 3,547,287	\$ 6,842,300	\$ 10,389,588
Total noncurrent assets	\$ 3,547,287	\$ 6,842,300	\$ 10,389,588
Total assets	\$ 4,308,683	\$ 7,113,411	\$ 11,422,094
Deferred Outflow of Resources:			
Pension related items	\$ 12,846	\$ 16,414	\$ 29,260
OPEB related items	2,668	3,410	6,078
Total deferred outflows of resources	\$ 15,514	\$ 19,824	\$ 35,338
Total Assets and Deferred Outflow of Resources	\$ 4,324,197	\$ 7,133,235	\$ 11,457,432
LIABILITIES			
Current liabilities:			
Unreconciled overdraft	\$ -	\$ 577,290	\$ 577,290
Accounts payable	160,774	259,197	419,972
Accrued liabilities	-	400	400
Customer deposits	3,092	-	3,092
Accrued payroll	6,456	342	6,798
Compensated absences	8,222	969	9,191
Accrued interest payable	388	1,163	1,551
Customer overpayments	181,355	-	181,355
Total current liabilities	\$ 360,288	\$ 839,361	\$ 1,199,649
Noncurrent liabilities:			
Bonds payable - net of current portion	\$ 1,373,767	\$ 4,075,242	\$ 5,449,009
Notes payable - net of current portion	1,218,656	-	1,218,656
Net pension liability	76,839	98,182	175,021
Net OPEB liability	-	7,007	7,007
Water deposits	92,029	-	92,029
Total noncurrent liabilities	\$ 2,761,291	\$ 4,180,431	\$ 6,941,722
Total liabilities	\$ 3,121,579	\$ 5,019,791	\$ 8,141,370
Deferred Inflow of Resources:			
Pension related items	\$ 9,452	\$ 8,190	\$ 17,642
OPEB related items	5,484	2,165	7,649
Total deferred inflows of resources	\$ 14,936	\$ 10,355	\$ 25,291
Total Liabilities and Deferred Inflow of Resources	\$ 3,136,515	\$ 5,030,146	\$ 8,166,661
NET POSITION			
Net investment in capital assets	\$ 954,864	\$ 2,767,059	\$ 3,721,922
Unrestricted	232,818	(663,970)	(431,151)
Total net position	\$ 1,187,682	\$ 2,103,089	\$ 3,290,771

The accompanying notes to the financial statements are an integral part of this statement

Year Ended June 30, 2025
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund

	Business-Type Activities		
	Water Fund	Sewer Fund	Total Funds
OPERATING REVENUES			
Water revenues	\$ 550,127	\$ -	\$ 550,127
Sewer revenues	-	599,337	599,337
Total operating revenues	\$ 550,127	\$ 599,337	\$ 1,149,464
OPERATING EXPENSES			
Personnel services	\$ 133,272	\$ 360,937	\$ 494,208
Fringe benefits	7,137	9,188	16,325
Depreciation	123,206	318,092	441,298
USDA System Upgrade	177,373	-	177,373
Other operating expenses	179,022	794,556	973,578
Total operating expenses	\$ 620,009	\$ 1,482,773	\$ 2,102,782
Operating income (loss)	\$ (69,882)	\$ (883,436)	\$ (953,319)
NONOPERATING REVENUES (EXPENSES)			
Interest expense	\$ (39,239)	\$ (106,148)	\$ (145,387)
Availability/connection fees	-	-	-
Total nonoperating revenues (expenses)	\$ (39,239)	\$ (106,148)	\$ (145,387)
Income before contributions and transfers	\$ (109,122)	\$ (989,584)	\$ (1,098,705)
Transfers In	\$ -	\$ -	\$ -
Transfers Out	-	-	-
Change in net position	\$ (109,122)	\$ (989,584)	\$ (1,098,705)
Total net position - beginning	1,296,804	3,092,673	4,389,477
Total net position - ending	\$ 1,187,683	\$ 2,103,089	\$ 3,290,772

The accompanying notes to the financial statements are an integral part of this statement

Year Ended June 30, 2025
Statement of Cash Flows
Proprietary Fund

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 550,127	\$ 599,337	\$ 1,149,464
Payments to employees and on behalf of employees	(140,408)	(370,125)	(510,533)
Payments to suppliers	(356,395)	(794,556)	(1,150,951)
Net cash provided (used) by operating activities	\$ 53,324	\$ (565,344)	\$ (512,020)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Connection Fees	\$ -	\$ -	\$ -
Adjustments to Capital Assets	(227,027)	697,433	470,406
Net cash provided (used) by noncapital and related financing activities	\$ (227,027)	\$ 697,433	\$ 470,406
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments in debt	\$ (39,239)	\$ (106,148)	\$ (145,387)
Net cash provided (used) by capital and related financing activities	\$ (39,239)	\$ (106,148)	\$ (145,387)
Net increase (decrease) in cash and cash equivalents	\$ (212,942)	\$ 25,941	\$ (187,001)
Cash and cash equivalents - beginning	786,611	(25,942)	760,669
Cash and cash equivalents - ending	\$ 573,669	\$ 0	\$ 573,668
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (69,882)	\$ (883,436)	\$ (953,319)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	\$ 123,206	\$ 318,092	\$ 441,298
Adjustments	(173,826)	(676,806)	(850,632)
Changes in operating accounts			
Accounts receivable	(3,131)	(42,122)	(45,253)
Accounts payable and accrued liabilities	172,474	718,928	891,402
Customer deposits	(1,000)	-	(1,000)
Total adjustments	\$ 123,206	\$ 318,092	\$ 441,298
Net cash provided (used) by operating activities	\$ 53,324	\$ (565,344)	\$ (512,020)

The accompanying notes to the financial statements are an integral part of this statement

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

Town of Bowling Green, located in Caroline County, Virginia, was incorporated in 1837. The Town has a population of 1,167 and a land area of 1.63 square miles.

The Town is governed under the Council-Manager form of government. The Town government engages in wide ranges of municipal services including general government administration, public safety, public works, and community development.

The financial statements of Town of Bowling Green, Virginia have been prepared in conformity with the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the Town's accounting policies are described below.

A. Financial Reporting Entity

Government-wide Financial Statements: The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Position: The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities: The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expenses of individual functions are compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

Fund Financial Statements: Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Budgetary Comparison Schedules: Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments and have a keen interest in following the actual financial progress of their governments over the course of the year. The Town and many other governments revise their original budgets over the course of the year for a variety of reasons.

Governments provide budgetary comparison information in their annual reports, including the original budget and a comparison of final budget and actual results for its major funds.

Individual Component Unit Disclosures: Accounting principles generally accepted in the United States require financial statements to present the primary government and its component units, entities for

which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The Town has no component units that meet the requirements for blending. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. The Town has one discretely presented component unit, the Economic Development Authority of Bowling Green. The Authority has a June 30 year end and does not issue separate financial statements.

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The focus is on both the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds (by category) and the component units, if applicable. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reflected on a full accrual economic resource basis which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

The Town generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The Town may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, community development, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, community development, etc.) or a business-type activity.

Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The Town does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Internal service charges, if applicable, are eliminated and the net income or loss from internal service activities is allocated to the various functional expense categories based on the internal charges to each function. In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment

necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

Proprietary fund operating revenues consist of charges for services and related revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The following is a brief description of the specific funds used by the Town in FY 2025.

- Governmental Funds - Governmental Funds are those through which most governmental functions typically are financed. The government reports the following governmental funds.
 - General Fund - The General Fund is the primary operating fund of the Town. This fund is used to account for and report all financial resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income. The General Fund is considered a major fund for reporting purposes.
 - Capital Projects Fund - The Capital Projects Fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments. The Capital Projects Fund is considered a major fund.
- Proprietary Funds - Proprietary Funds account for operations that are financed in a manner similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of Enterprise Funds.
Enterprise Funds - Enterprise Funds account for the financing of services to the general public where all or most of the operating expenses involved are recorded in the form of charges to users of such services. Enterprise Funds consist of the Water Fund and the Sewer Fund.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net position) is segregated into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

Governmental Funds - Governmental funds utilize the modified accrual basis of accounting under which revenues and related assets are recorded when measurable and available to finance operations during the year. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts, except that property taxes not collected within 45 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the State or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the State or utility, which is generally in

the month preceding receipt by the Town. Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of State and other grants for the

purpose of funding specific expenditures, are recognized when measurable and available or at the time of the specific expenditure.

Expenditures, other than interest on long-term debt, are recorded as the related fund liabilities are incurred. Principal and interest on long-term debt are recognized when due except for amounts due on July 1, which are accrued.

Proprietary Funds - The accrual basis of accounting is used for the Enterprise Fund. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

D. Budgets and Budgetary Accounting

The following procedures are used by the Town in establishing the budgetary data reflected in the financial statements:

1. Budgets and Budgetary Accounting

- a. The Town Manager, in conjunction with the Administration and Finance Committee, submits a proposed operating budget to the Town Council prior to June 30 of each year. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain citizen comments.
- c. Prior to June 30, the budget is legally enacted through Council vote.
- d. The budget places legal restrictions on expenditures at the function level. The Town Manager is authorized to transfer budgeted amounts between line items within a department without prior approval from the Town Council.
- e. Formal budgetary integration is employed as a management control device during the year for the General Fund.
- f. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- g. For the year ended June 30, 2025, expenditures exceeded appropriations in the general government administration function of the general fund by \$207,070.

2. Legally Adopted Budgets

The general, capital projects and proprietary funds have legally adopted annual budgets.

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash and cash equivalents include all cash on hand and in banks, and highly liquid investments with original maturities of three months or less.

F. Property Taxes

Real estate and personal property are assessed annually on January 1st by the County of Caroline. Personal property and real estate taxes attach as an enforceable lien on the property as of January 1st. Taxes are payable in one installment on December 5th. The Town bills and collects its own property taxes. Penalties accrue at 10% on real estate and personal property taxes beginning December 6th. Interest accrues on real estate and personal property taxes at 10% per annum beginning December 6th after the December 5th due date.

G. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible water and sewer charges was \$24,360 at June 30, 2025.

H. Capital Assets

Capital assets include land, buildings, equipment, vehicles and water and sewer mains. Any asset or group of assets acquired by the Town that has a useful life in excess of one year and an acquisition cost, or fair value (when received), of at least \$5,000 is reported in the applicable governmental or business-type activities column in the government-wide financial statements.

Such assets are recorded at historical cost (or estimated historical cost) if constructed or purchased. Donated capital assets are recorded at acquisition value at the date of donation. Capital assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	5-50 years
Equipment	1-15 years
Infrastructure	10-20 years
Vehicles	5-15 years
Utility Plant in Service	10-50 years

Major outlays for capital assets and improvements are capitalized as projects are constructed.

I. Compensated AbsencesAnnual Leave

Annual leave is accrued on a semi-monthly basis. The amount of annual leave that an employee accrues and the total that may be accumulated is based upon the employee's length of service. Annual leave accrues on a biweekly basis and on July 1 of each year, all leave accrued in excess of the maximum accrual amount will be lost.

Sick Leave

Employees accrue sick leave is based upon the employee's length of service. There is no maximum sick leave accumulation. In the governmental fund types of the fund financial statements, the cost of annual leave and sick leave is only recognized when payments are made to employees. However, in the government-wide financial statements, the liability for accrued annual and sick leave benefits represent the Town's commitment to fund such vested amounts from future operations. In the proprietary funds the amount of such compensated absences is recognized in full when vested.

J. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs during the current period. The face amount of debt issued and premiums on issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Fund Equity

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance – amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

Unassigned fund balance – amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget or a motion to commit funds. A fund balance commitment, which does not lapse at year end, is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council or the Town Manager as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

L. Credit Risk

Concentrations of credit risk with respect to receivables are limited due to the large number of customers comprising the Town's customer base. As of June 30, 2025, the Town had no significant concentrations of credit risk.

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

N. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one item that qualifies for reporting in this category. It is comprised of certain items related to pension and OPEB. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has multiple items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30th and amounts levied during the fiscal year but due after June 30th, and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, amounts levied during the fiscal year but due after June 30th are reported as deferred

inflows of resources. In addition, certain items related to pension and OPEB are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town Retirement Plan and the additions to/deductions from the Town Retirement Plan's fiduciary net position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Other Postemployment Benefits (OPEB)

For purposes of measuring the net VRS related OPEB liability, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI OPEB Plan and the additions to/deductions from the VRS OPEB Plan's fiduciary net position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Q. Net Position

For government-wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

NOTE 2 DEPOSITS AND INVESTMENTS:

Deposits:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments:

Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP). The Town had no investments at June 30, 2025.

NOTE 3 DUE FROM OTHER GOVERNMENTAL UNITS:

At June 30, 2025 the Town has receivables from other governments as follows:

<u>Due from Governmental Units</u>		Governmental Activities
Commonwealth of Virginia:		
Telecommunications Tax	\$	4,493
Caroline County		9,441
	\$	<u>13,933</u>

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in capital assets during the fiscal year:

	Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 39,197	\$ -	\$ -	\$ 39,197
Total capital assets not being depreciated	\$ 39,197	\$ -	\$ -	\$ 39,197
Capital assets being depreciated:				
Buildings and improvements	\$ 454,657	\$ 53,035	\$ -	\$ 507,692
Equipment	127,925	62,917	-	190,842
Infrastructure	180,620	-	-	180,620
Vehicles	264,852	-	-	264,852
Total capital assets being depreciated	\$ 1,028,054	\$ 115,952	\$ -	\$ 1,144,006
Less accumulated depreciation for:				
Buildings and improvements	\$ 236,425	\$ 11,425	\$ -	\$ 247,850
Equipment	104,507	2,958	-	107,465
Infrastructure	180,194	47	-	180,241
Vehicles	236,722	14,305	-	251,027
Total accumulated depreciation	\$ 757,848	\$ 28,735	\$ -	\$ 786,583
Total capital assets being depreciated, net	\$ 270,206	\$ 87,217	\$ -	\$ 357,423
Governmental activities capital assets, net	\$ 309,403	\$ 87,217	\$ -	\$ 396,620

	Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 76,530	\$ -	\$ -	\$ 76,530
Construction in progress	1,277,568	-	-	1,277,568
Total capital assets not being depreciated	\$ 1,354,098	\$ -	\$ -	\$ 1,354,098
Capital assets being depreciated:				
Buildings and improvements	\$ 103,057	\$ -	\$ -	\$ 103,057
Equipment	229,057	-	-	229,057
Vehicles	145,371	-	-	145,371
Utility plant in service	13,244,586	392,264	-	13,636,850
Total capital assets being depreciated	\$ 13,722,070	\$ 392,264	\$ -	\$ 14,114,334
Less accumulated depreciation for:				
Buildings and improvements	\$ 63,448	\$ 2,485	\$ -	\$ 65,933
Equipment	128,093	10,163	-	138,256
Vehicles	139,731	3,300	-	143,031
Utility plant in service	4,306,293	425,352	-	4,731,645
Total accumulated depreciation	\$ 4,637,565	\$ 441,300	\$ -	\$ 5,078,865
Total capital assets being depreciated, net	\$ 9,084,505	\$ (49,036)	\$ -	\$ 9,035,470
Business-type activities capital assets, net	\$ 10,438,604	\$ (49,036)	\$ -	\$ 10,389,568

NOTE 4 CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

Depreciation expense has been allocated as follows:

General government administration	\$	7,759
Public safety		8,621
Public works		<u>12,356</u>
Total depreciation expense	\$	<u>28,735</u>

Business-type Activities:

Depreciation expense has been allocated as follows:

Water fund	\$	123,206
Sewer fund		<u>318,092</u>
Total depreciation expense	\$	<u>441,298</u>

NOTE 5 COMPENSATED ABSENCES:

The Town has accrued the liability arising from outstanding compensated absences. The Town had outstanding compensated absences as follows:

		Governmental Activities
Governmental Activities	\$	<u>-</u>
Business-type Activities	\$	<u>9,191</u>

NOTE 6 LONG-TERM OBLIGATIONS:

The following is a summary of changes in long-term obligation transactions for the fiscal year ended June 30, 2025:

	Balance at July 1, 2024	Issuances/ Increases	Retirements/ Decreases	Balance at June 30, 2025	Amounts Due within One Year
Governmental Activities:					
Other liabilities:					
Net pension liability	\$ 278,728	\$ -	\$ 278,728	\$ -	\$ -
Net OPEB liability	16,631	-	16,631	-	-
Compensated absences	33,115	-	33,115	-	-
Total Governmental Activities	\$ 328,474	\$ -	\$ 328,474	\$ -	\$ -
Business-type Activities:					
Water Fund					
Direct borrowings and direct placements:					
General Obligation bonds	\$ 1,395,368	\$ -	\$ 21,601	\$ 1,373,767	\$ 31,893
Advance term promissory note	1,218,656	-	-	1,218,656	-
Other liabilities:					
Net pension liability	76,839	-	-	76,839	-
Net OPEB liability	5,483	-	-	-	-
Compensated absences	-	-	-	-	-
Sewer Fund					
Direct borrowings and direct placements:					
Sewer revenue bonds	4,168,997	-	64,791	4,104,206	95,290
Other liabilities:					
Net pension liability	98,182	-	-	98,182	-
Net OPEB liability	7,007	-	-	7,007	-
Compensated absences	9,191	-	-	9,191	919
Total Governmental Activities	\$ 6,979,723	\$ -	\$ 86,392	\$ 6,887,848	\$ 128,102

Annual requirements to amortize long-term obligations and related interest are as follows:

Year	Water Bonds		Sewer Bonds		Advance Term Promissory Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 31,893	22,085	95,290	65,987	\$ 1,218,656	\$ 77,173
2027	32,415	21,563	96,850	64,427	-	-
2028	32,946	21,033	98,436	62,841	-	-
2029-2033	172,999	96,894	516,888	289,500	-	-
2034-2038	187,631	82,261	560,607	245,780	-	-
2039-2043	203,502	66,391	608,025	198,636	-	-
2044-2048	220,714	49,178	659,453	146,935	-	-
2049-2053	239,383	30,509	715,231	91,156	-	-
2054-2058	252,284	10,266	753,426	30,672	-	-
	<u>\$ 1,373,767</u>	<u>\$ 412,513</u>	<u>\$ 4,104,206</u>	<u>\$ 1,195,934</u>	<u>\$ 1,218,656</u>	<u>\$ 77,173</u>

NOTE 6 LONG-TERM OBLIGATIONS - CONTINUED

Details of Long-term Obligations:

	Amount Outstanding	Amounts Due Within One Year
<u>Governmental Activities:</u>		
Net pension liability	\$ -	\$ -
Net OPEB liability	\$ -	\$ -
Compensated absences	\$ -	\$ -
Total Governmental Obligations	\$ -	\$ -

Business-type Activities:

Bonds Payable:

\$6,316,000 General Obligation and Sewer Revenue Bonds, issued August 24, 2018, payable in 480 monthly installments of \$17,938 beginning on September 24, 2018, interest payable at 1.625% per year.

\$ 5,477,973	\$ 127,183
\$ 5,477,973	\$ 127,183

Notes Payable:

Up to \$5,693,000 Advance Term Promissory Notes, issued April 29, 2021, interest payable monthly at rates tied to the LIBOR index rate. Principal due April 29, 2025 if not repaid before that date. \$1,218,656 drawn as of June 30, 2024.

Net pension liability	\$ 175,021	\$ -
Net OPEB liability	\$ 7,007	\$ -
Compensated absences	\$ 9,191	\$ 919
Total Business-type Obligations	\$ 6,887,848	\$ 128,102
Total Primary Government	\$ 6,887,848	\$ 128,102

NOTE 7 PENSION PLAN

Plan Description

All full-time, salaried permanent employees of the Town are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

Benefit Structures

The System administers three different benefit structures for covered employees – Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria, as detailed below.

- a. Employees with a membership date before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are

eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.

- b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013, are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service credit equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. Hazardous duty employees are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- c. Non-hazardous duty employees with a membership date on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 – April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service credit equals 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of service credit are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of service credit are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia

Employees Covered by Benefit Terms

As of the June 30, 2024 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

Membership Category	Number (1)	Average Expected Remaining Service Lives (2)
a. Active Members	9	7.58
b. Inactive Members	46	0.00
c. Total	55	
Average Expected Remaining Service Lives = [(a.(1) x a.(2)) + (b.(1) x b.(2))] / c.(1)		1.24

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The Town's contractually required employer contribution rate for the year ended June 30, 2025 was 6.59% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$71,365 and \$71,365 for the years ended June 30, 2025 and June 30, 2024, respectively.

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The Town's net pension liabilities were measured as of June 30, 2024. The total pension liabilities used to calculate the net pension liabilities was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2024.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024.

NOTE 7 PENSION PLAN - CONTINUED

Inflation	2.50%
Salary increases, including inflation	3.50% – 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

Mortality rates:

Largest 10 – (Non 10 Largest) – Hazardous Duty; 15% of deaths are assumed to be service related.

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 Rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and be more consistent with Locals Largest 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024.

Inflation	2.50%
Salary increases, including inflation	3.50% – 4.75%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

Mortality rates:

All Others (Non-10 Largest) – Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Actuarial Assumptions – Public Safety Employees with Hazardous Duty Benefits (Continued)

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Long-Term Expected Rate of Return (Continued)

Asset Class (Strategy)	Target Allocation	Arithmetic Long- Term Expected Real Rate of Return	Weighted Average Long-Term Expected Real Rate of Return
Public Equity	34.00%	6.14 %	2.09%
Fixed Income	15.00%	2.56%	0.38%
Credit Strategies	14.00%	5.60%	0.78%
Real Assets	14.00%	5.02%	0.70%
Private Equity	16.00%	9.17%	1.47%
MAPS - Multi-Asset Public Strategies	4.00%	4.50%	0.18%
PIP - Private Investment Partnership	2.00%	7.18%	0.14%
Cash	1.00%	1.20%	0.01%
Total	100.00%		5.75%
	Inflation		2.50%
*Expected arithmetic nominal return			8.25%

* The above allocation provides a one-year expected return of 8.25%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions.

The results provide a range of returns over various time periods that ultimately provide a median return of 7.14%, including expected inflation of 2.50%.

**On June 15, 2024, the VRS Board elected a long-term rate of return of 6.75% which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Town and Component Unit School Board (nonprofessional) was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2024, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2022 actuarial valuations, whichever was greater. Through the fiscal year ended June 30, 2024, the rate contributed by the school division for the VRS Teacher Retirement Plan was subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 112% of the actuarially determined contribution rate. From July 1, 2024 on, participating employers and school divisions are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) – (b)
Balance as of June 30, 2024	\$ 1,594,008	\$ 1,414,763	\$ 179,245
Change for the year:			
Service cost	37,383		37,383
Interest	103,105		103,105
Change in Benefit Terms	0		0
Change in Assumptions	7,672		7,672
Difference Between Expected and Actual Experience	(201,405)		(201,405)
Contributions - Employer		50,717	(50,717)
Contributions - Employee		22,498	(22,498)
Net investment income		140,973	(140,973)
Benefit Payments, Including Refunds of Employee Contributions	(207,825)	(207,825)	0
Pension Plan Administrative Expense		(862)	862
Other changes	0	36	(36)
Net Change	(261,070)	5,537	(266,607)
Balance as of June 30, 2025	\$ 1,332,938	\$ 1,420,300	\$ (87,362)

Total Pension Liability Roll Forward

TPL Roll Forward	Actual	Actual Before Assumption Change	Expected
(a) TPL as of June 30, 2024	\$ 1,412,465	\$ 1,405,338	\$ 1,594,008
(b) Service Cost	37,443	37,383	37,383
(c) Actual Benefit Payments and Refunds	207,825	207,825	207,825
(d) Change in Benefit Terms	0	0	0
(e) TPL as of June 30, 2025	\$ 1,332,938	\$ 1,325,266	\$ 1,526,671
= [(a+b) x (1+i ¹)]-[c x (1+i/2)] + (d)			
(f) Change in Assumptions		\$ 7,672	
(g) Difference Between Actual and Expected Experience			\$ (201,405)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Town using the discount rate of 6.75%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Plan's Net Pension Liability	\$ 107,219	\$ (87,362)	\$ (243,893)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2025, the Town recognized pension expense/(income) of \$(152,463).

1. Service Cost	\$ 37,383
2. Interest on the Total Pension Liability	103,105
3. Current-Period Change in Benefit Terms	0
4. Expensed Portion of Current-Period Difference Between Expected and Actual Experience in the Total Pension Liability	(162,423)
5. Expensed Portion of Current-Period Change in Assumptions	6,187
6. Member Contributions (made negative for addition)	(22,498)
7. Projected Earnings on Plan Investments (made negative for addition)	(90,926)
8. Expensed Portion of Current-Period Differences Between Projected and Actual Earnings on Plan Investments	(10,009)
9. Pension Plan Administrative Expense	862
10. Other	(36)
11. Scheduled Recognition of Prior Deferred Outflows of Resources	32,799
12. Scheduled Recognition of Prior Deferred (Inflows) of Resources	(46,907)
13. Pension Expense/(Income)	\$ (152,463)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: (Continued)

At June 30, 2025, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 38,982
Change in assumptions	1,485	0
Net difference between projected and actual earnings on plan investments	0	44,836
Employer contributions subsequent to the Measurement Date ¹	0	
Total	\$ 1,485	\$ 83,818

\$37,582 reported as deferred inflows of resources related to pensions resulting from the Town's contributions, subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Reporting Date Ending June 30,		
2027	\$	(37,582)
2028		(17,069)
2029		(17,671)
2030		(10,011)
2031		0
Thereafter		0
Total	\$	(82,333)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2025 Annual Comprehensive Financial Report (ACFR). A copy of the 2025 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2025-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Plan Description

The Group Life Insurance (GLI) Plan was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Plan upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Plan. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured Plan, it is not included as part of the GLI Plan OPEB.

The specific information for GLI Plan OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The GLI Plan was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the plan. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

Benefit Amounts

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, seatbelt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,984 as of June 30, 2025.

Contributions

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% ($1.34\% \times 60\%$) and the employer component was 0.54% ($1.34\% \times 40\%$). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2025 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Plan from the Town were \$2,823 and \$2,823 for the years ended June 30, 2025 and June 30, 2024, respectively.

In June 2024, the Commonwealth made a special contribution of approximately \$30.4 million to the Group Life Insurance Plan. This special payment was authorized by a budget amendment included in Chapter 1 of the 2023 Appropriation Act, and is classified as a non-employer contribution.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB

At June 30, 2025, the Town reported a liability of \$30,464 for their proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2024 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2021, and rolled forward to the measurement date of June 30, 2024. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Program for the year ended June 30, 2024 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2024, the Town's proportion was .00250% as compared to .00270% at June 30, 2021.

For the year ended June 30, 2025, the Town recognized GLI OPEB expense of \$4,177. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB (Continued)

At June 30, 2025, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,412	\$ 1,222
Net difference between projected and actual earnings on GLI OPEB program investments	-	1,904
Change in assumptions	1,136	2,967
Changes in proportionate share	8,458	3,322
Employer contributions subsequent to the measurement date	2,823	-
Total	\$ 14,829	\$ 9,415

\$2,823 reported as deferred outflows of resources related to the GLI OPEB resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30	
2025	\$ 1,662
2026	(608)
2027	(219)
2028	(669)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2021, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024. The assumptions include several

Actuarial Assumptions: (Continued)

employer groups. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS Annual Report.

Inflation	2.50%
Salary increases, including inflation:	
General state employees	3.50% – 5.95%
Locality – General employees	3.50%-5.35%
Locality - Hazardous Duty employees	3.50%-4.75%
Investment rate of return	6.75%, net of investment expenses, including inflation

Mortality Rates – Non-Largest Ten Locality Employers – General Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Actuarial Assumptions: (Continued)

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Mortality Rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

Actuarial Assumptions: (Continued)

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Top 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Mortality Rates – Non-Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement Scale:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Plan represents the plan's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2024, NOL amounts for the GLI Plan are as follows (amounts expressed in thousands):

	GLI OPEB Program
Total GLI OPEB Liability	\$ 3,672,085
Plan Fiduciary Net Position	<u>2,467,989</u>
Employers' Net GLI OPEB Liability (Asset)	\$ <u>1,204,096</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	67.21%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.71%	1.94%
Fixed Income	15.00%	2.04%	0.31%
Credit Strategies	14.00%	4.78%	0.67%
Real Assets	14.00%	4.47%	0.63%
Private Equity	14.00%	9.73%	1.36%
MAPS - Multi-Asset Public Strategies	6.00%	3.73%	0.22%
PIP - Private Investment Partnership	3.00%	6.55%	0.20%
Total	<u>100.00%</u>		<u>5.33%</u>

Inflation 2.50%

Expected arithmetic nominal return* 7.83%

Long-Term Expected Rate of Return (Continued)

*The above allocation provides a one-year return of 7.83%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the

System, stochastic projections are employed to model future returns under various economic conditions. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

** On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2024, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2024 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the employer's proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
Town's Proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 44,328	\$ 30,464	\$ 19,259

GLI Plan Fiduciary Net Position

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2025 Annual Comprehensive Financial Report (ACFR). A copy of the 2025 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2025-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 9 UNAVAILABLE/UNEARNED/DEFERRED REVENUES

Unavailable/unearned/deferred revenues represent amounts for which, under the modified accrual basis of accounting, asset recognition criteria have been met, but for which revenue recognition criteria have not been met (i.e., such amounts are measurable, but not available). Under the accrual basis, assessments for future periods are deferred. At June 30, 2025 unavailable/deferred property tax revenues in the governmental funds totaled \$316,365.

NOTE 10 FIDELITY BOND

Fidelity bond coverage with Virginia Municipal League during the fiscal year 2024 was as follows:

Coverage

Public employees dishonesty coverage	\$	250,000
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NOTE 11 LINE OF DUTY ACT (LODA) (OPEB BENEFITS)

The Line of Duty Act (LODA) provides death and healthcare benefits to certain law enforcement and rescue personnel, and their beneficiaries, who were disabled or killed in the line of duty. Benefit provisions and eligibility requirements are established by Title 9.1 Chapter 4 of the Code of Virginia. Funding of LODA benefits is provided by employers in one of two ways: (a) participation in the Line of Duty and Health Benefits Trust Fund (LODA Fund), administered by the Virginia Retirement System (VRS) or (b) self-funding by the employer or through an insurance company.

The Town has elected to provide LODA benefits through an insurance company. The obligation for the payment of benefits has been effectively transferred from the Town to VACORP. VACORP assumes all liability for the Town's LODA claims that are approved by VRS. The pool purchases reinsurance to protect the pool from extreme claims costs.

The current-year OPEB expense/expenditure for the insured benefits is defined as the amount of premiums or other payments required for the insured benefits for the reporting period in accordance with the agreement with the insurance company for LODA and a change in liability to the insurer equal to the difference between amounts recognized as OPEB expense and amounts paid by the employer to the insurer. The Town's LODA coverage is fully covered or "insured" through VACORP. This is built into the LODA coverage cost presented in the annual renewals.

NOTE 12 COMMITMENTS AND CONTINGENCIES

While it is anticipated that the Water and Sewer Funds will be able to make the required payments to liquidate the Bonds Payable, in the event of a failure to do so the full faith and credit of the Town's General Fund will be obligated to meet any necessary payment shortfall.

NOTE 13 LITIGATION

At June 30, 2025, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions on pending matters not be favorable to the Town.

NOTE 14 COVID-19

ARPA Funding

On March 11, 2021, the American Rescue Plan (ARPA) Act of 2021 was passed by the federal government. A primary component of the ARPA was the establishment of the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF). Local governments were to receive funds in two tranches, with 50% provided beginning in May 2021 and the balance delivered approximately 12 months later.

On June 30, 2021, the Town received its share of the first half of the CSLFRF funds. The second half of these funds was received on July 19, 2022. As a condition of receiving CSLFRF funds, any funds unobligated by December 31, 2025, and unexpended by December 31, 2026, will be returned to the federal government. Unspent funds in the amount of \$991,597 from the initial allocation are reported as unearned revenue as of June 30, 2025. On July 1, 2026 – the Federal Government issued updated guidance on the CSLFRF funds.

NOTE 15 SUBSEQUENT EVENTS

Events or transactions sometimes occur subsequent to the balance-sheet date, but prior to the issuance of the financial statement that have a material effect on the financial statements and therefore require adjustment or disclosure in the statements. In accordance with AU Section 560 – the entity is required to disclose those events – that if not disclosed – would cause the financial statements to be misleading. Subsequent events are evaluated through August 23, 2026, the date which the financial statements were available.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.

Year Ended June 30, 2025

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
General Fund

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
General property taxes	\$ 226,550	\$ 226,550	\$ 228,654	\$ 2,104
Other local taxes	1,034,500	1,034,500	1,790,216	755,716
Permits, privilege fees, and regulatory licenses	22,700	22,700	65,545	42,845
Miscellaneous	183,896	183,896	173,389	(10,507)
Total revenues	\$ 1,467,646	\$ 1,467,646	\$ 2,257,804	\$ 790,158
EXPENDITURES				
Current:				
General government administration	\$ 736,099	\$ 736,099	\$ 1,084,174	\$ (348,075)
Public safety	187,011	187,011	327,879	(140,868)
Public works	360,036	360,036	524,065	(164,029)
Total expenditures	\$ 1,283,146	\$ 1,283,146	\$ 1,936,119	\$ (652,973)
Excess (deficiency) of revenues over (under) expenditures	\$ 184,500	\$ 184,500	\$ 321,685	\$ 137,185
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (204,500)	\$ (204,500)	\$ -	\$ (204,500)
Transfers in	20,000	20,000	-	20,000
Total other financing sources and uses	\$ (184,500)	\$ (184,500)	\$ -	\$ (184,500)
Net change in fund balances	\$ -	\$ -	\$ 321,685	\$ 321,685
Fund balances - beginning	2,052,614	2,052,614	2,052,614	-
Fund balances - ending	\$ 2,052,614	\$ 2,052,614	\$ 2,374,299	\$ 321,685

Year Ended June 30, 2025
Schedule of Revenues – Budget and Actual
General Fund

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Real property taxes	\$ 145,000	\$ 145,000	\$ 129,601	\$ (15,399)
Real property taxes - delinquent	450	450	558	108
RT 301 Special Tax District - Taxes	29,000	29,000	33,249	4,249
Public service corporation taxes	3,000	3,000	2,655	(345)
Personal property taxes	45,000	45,000	44,648	(352)
Personal property taxes - delinquent	500	500	861	361
Real property taxes - penalty	2,000	2,000	-	(2,000)
Real property taxes - interest	1,600	1,600	17,083	15,483
Total general property taxes	\$ 226,550	\$ 226,550	\$ 228,654	\$ 2,104
State sales tax	\$ 45,000	\$ 45,000	\$ 56,655	\$ 11,655
Consumer utility tax	30,000	30,000	47,605	17,605
Business license tax	95,000	95,000	111,213	16,213
Cigarette tax	45,000	45,000	41,303	(3,697)
Motor vehicle license tax	-	-	-	-
Motor vehicle registration fees	15,000	15,000	-	(15,000)
Bank franchise tax	275,000	275,000	1,033,920	758,920
Lodging tax	-	-	-	-
Lodging - Occupancy Tax Escrow	-	-	-	-
Meals tax	385,000	385,000	359,521	(25,479)
Meals tax penalty	-	-	-	-
Trash revenue	110,000	110,000	111,012	1,012
Transient occupancy	3,000	3,000	4,936	1,936
Communication sales tax	31,500	31,500	24,052	(7,448)
Total other local taxes	\$ 1,034,500	\$ 1,034,500	\$ 1,790,216	\$ 755,716
Total tax	\$ 1,261,050	\$ 1,261,050	\$ 2,018,870	\$ 757,820
Permits, privilege fees, and regulatory licenses:				
Zoning and subdivision permits	\$ 2,700	\$ 2,700	\$ 18,272	\$ 15,572
Fines	20,000	20,000	4,963	(15,037)
Interest earned from banks	-	-	42,311	42,311
Rental of property	-	-	-	-
Total permits, privilege fees, and regulatory licenses	\$ 22,700	\$ 22,700	\$ 65,545	\$ 42,845
Miscellaneous Revenue:				
Cable Property Rental	\$ 7,000	\$ 7,000	\$ 8,001	\$ 1,001
Town Hall Rental and Fees	12,500	12,500	26,096	13,596
Miscellaneous revenue	101,400	101,400	70,034	(31,366)
PPTRA (Tax Relief)	21,900	21,900	21,908	8
VA 599 Police funding	24,500	24,500	30,513	6,013
Virginia fire grant	15,000	15,000	15,000	-
Litter grant	1,596	1,596	1,838	242
Total Miscellaneous	\$ 183,896	\$ 183,896	\$ 173,389	\$ 242
Total other fees	\$ 206,596	\$ 206,596	\$ 238,935	\$ 43,087
Miscellaneous income	\$ -	\$ -	\$ -	\$ -
Total miscellaneous revenue	\$ -	\$ -	\$ -	\$ -
Total revenue from local sources	\$ 1,467,646	\$ 1,467,646	\$ 2,257,804	\$ 790,158
Funds Transfers				
Transfer in	\$ 20,000	\$ 20,000	\$ -	\$ (20,000)
Transfer in Pool Reserve	-	-	-	-
Total transfers in	\$ 20,000	\$ 20,000	\$ -	\$ (20,000)
Total General Fund	\$ 1,487,646	\$ 1,487,646	\$ 2,257,804	\$ 770,158

Year Ended June 30, 2025
Schedule of Expenditures – Budget and Actual
General Fund

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Town Council	\$ -	\$ -	\$ -	-
Town Treasurer	385,019	385,019	632,226	(247,207)
Town Administration	197,180	197,180	153,082	44,098
Professional services	-	-	-	-
General administration	153,900	153,900	298,867	(144,967)
Total general government administration	\$ 736,099	\$ 736,099	\$ 1,084,174	\$ (348,075)
Public safety:				
Public safety:	\$ 187,011	\$ 187,011	\$ 327,879	\$ (140,868)
Total public safety	\$ 187,011	\$ 187,011	\$ 327,879	\$ (140,868)
Public works:				
Refuse collection	\$ 98,500	\$ 98,500	\$ 234,834	\$ (136,334)
Maintenance and grounds	261,536	261,536	289,231	(27,695)
Total public works	\$ 360,036	\$ 360,036	\$ 524,065	\$ (164,029)
Funds Transfers				
	\$ 204,500	\$ 204,500	\$ -	\$ 204,500
Total Transfers	\$ 204,500	\$ 204,500	\$ -	\$ 204,500
Total General Fund	\$ 1,487,646	\$ 1,487,646	\$ 1,936,119	\$ (448,473)

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**To the Honorable Governing Body
Town of Bowling Green, Virginia**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Bowling Green, Virginia, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Town of Bowling Green, Virginia's basic financial statements and have issued our report thereon dated August 23, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Bowling Green, Virginia's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Bowling Green, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Bowling Green, Virginia's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2025-001 and 2025-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Bowling Green, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Bowling Green, Virginia's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Town of Bowling Green, Virginia's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Town of Bowling Green, Virginia's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Davis & Associates

Columbia, Maryland
August 23, 2026

Section I – Summary of Auditor’s Results

Financial Statements

Type of report issued	Unmodified
Internal Control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	No

Section II – Financial Statement Findings

Finding 2025-001: Absence of Formalized Internal Control Policies and Procedures (Repeat Finding)

Condition:

The Town continues to operate without written financial policies or a formal accounting procedures manual. While the Town has maintained adequate segregation of duties and engages an external consultant to assist with month-end closing, the specific steps, review levels, and authorization protocols for these processes have not been reduced to writing. This condition was previously reported in the 2024 audit and the 2023 audit.

Criteria:

Internal control consists of five interrelated components, including control activities and information and communication. For these components to be effective, management must document policies and procedures to ensure that controls are consistently applied and that the Town’s expectations are clearly communicated to staff and external service providers.

Cause:

Management has focused its resources on the execution of financial tasks rather than the formalization of the underlying policies.

Effect:

The Town’s control environment relies heavily on the "institutional knowledge" of specific individuals and the external consultant. This creates a significant risk of operational failure should there be turnover in key positions. Without written procedures, there is no objective basis for management to monitor whether controls are functioning as intended, which increases the risk that errors or irregularities could occur and not be detected in a timely manner.

Recommendation:

The Town should prioritize the development of a formal accounting manual. This document should detail the specific procedures for significant cycles, including:

- Cash disbursements and procurement (including bid requirements).
- Payroll processing and personnel file maintenance.
- Monthly financial statement reconciliation and review.
- Year-end financial reporting.

The manual should clearly distinguish between the duties performed by Town staff and those performed by the external consultant to ensure there is proper oversight and a clear trail of accountability.

Finding 2025-002: Financial Statements Not Properly Reconciled

Condition:

The Town's initial Budget to Actual report provided did not properly reconcile to the Trial Balance. The Town subsequently provided an updated report that reflected the correct accruals for certain expense items. The Town's financial statements also appear to be missing some required accruals, for example the Governmental Net Pension Liability. A similar finding was reported in the 2023 audit.

Criteria:

Proper internal control over financial reporting ensures the reliability of reporting for internal and external use. The Town is required to ensure that the financial information provided is reliable and reflects all transactions and accruals. This will ensure that the financial information provided by the Town provides an accurate picture of the Town's assets and liabilities and can be relied upon by external users and stakeholders. The Financial Statements are the responsibility of Management, consequently – it is the responsibility of Management to ensure the accuracy and reliability of the financial statements.

Cause:

As discussed in Finding 2025-001, management has focused its resources on the execution of financial tasks rather than the formalization of the underlying policies. The Town has not developed a formalized policy for the following tasks:

- Monthly financial statement reconciliation and review.
- Year-end financial reporting.

In the absence of a formalized policy that includes a monthly reconciliation that is prepared and provided to management for review – problems with reporting will continue.

Recommendation:

The Town should prioritize the development of a formal accounting manual. The Town should immediately develop and implement policies and procedures to require monthly reconciliation of the financial statements to ensure that all accruals and journal entries are properly posted. Management should sign off on the financial statements to demonstrate that the proper management review was performed. Management should consider hiring a full time General Ledger Accountant with the relevant State and Local government experience who is able to prepare the required financial statements and then reconcile those financial statements to the general ledger on a monthly basis.

Prior Audit Report Issued By	Davis and Associates
Report Date	December 31, 2025
Finding Number	2024-001
Category	Material Weakness – Internal Control
Title	No Financial Policies

Description of Finding

The Town does not have any written financial policies governing key areas such as budgeting, cash management, procurement, debt management, or fund balance usage.

Prior Audit Recommendation

The prior auditors recommended that the Town develop and formally adopt comprehensive written financial policies covering all key financial management areas, including budgeting, cash and investment management, procurement, debt management, and fund balance. These policies should be periodically reviewed and updated by management and approved by the governing body to ensure continued relevance and effectiveness.

Conclusion

We concluded that the Town has not properly addressed this prior audit finding. The Town has made progress in strengthening its processes including ensuring proper accruals and utilizing one accounting system, however the Town has not made any progress in designing and testing the operating effectiveness of internal controls.

This finding is repeated in the current year as Finding 2025-001.